

Message Text

PAGE 01 PHNOM 07588 260620Z

10

ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-15

AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 CEA-02 RSR-01

/156 W

----- 058230

R 260401Z JUL 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 2266

C O N F I D E N T I A L PHNOM PENH 7588

FOR STATE/AID

E.O. 11652: GDS

TAGS: EFIN

SUBJ: IMF MISSION VISIT

1. SUMMARY. THE IMF MISSION APPARENTLY IS NOT MAKING SPECIFIC RECOMMENDATIONS WITH RESPECT TO MANAGEMENT OF THE EXCHANGE RATE. HOWEVER THERE WILL BE A NUMBER OF DETAILED RECOMMENDATIONS CONCERNING INTEREST RATES, RESERVE REQUIREMENTS AND MEANS FOR INCREASING REVENUE. END SUMMARY.

2. AS OF THE DRAFTING OF THIS CABLE, THE IMF MISSION HAD NOT MADE ITS REPORT AND RECOMMENDATIONS TO SOK CHHONG. IN GENERAL, WE HAVE AN IMPRESSION OF SOME DIFFIDENCE ON THE PART OF THE MISSION CONCERNING KHMER ECONOMIC PROBLEMS. ONE RESULT IS THAT IN THE CASE OF THE EXCHANGE RATE, IT APPEARS NO SUBSTANTIVE RECOMMENDATION WILL BE MADE OTHER THAN A CAUTION THAT THE RATE NEEDS TO BE WATCHED AND PROBABLY OUGHT TO BE ADJUSTED AS NECESSARY. IN DISCUSSIONS WITH US, THE MISSION SEEMED TO BE MOST IMPRESSED WITH THE FACT THAT DEMAND ON THE NOUVEAU MARCHE' DES CHANGE HAS REMAINED AT A RELATIVELY LOW LEVEL FOR AN EXTENDED PERIOD OF TIME. THEY CLEARLY CONFIDENTIAL

PAGE 02 PHNOM 07588 260620Z

HAD NOT TAKEN A LOOK AT THE EXPERIENCE OF THE CIP AND DID NOT SEEM TO RELATE IT IN AN ARTICULATED MANNER TO THE BEHAVIOR OF THE NMC/ESP. FURTHER, WHILE SOME CONSIDERATION HAD BEEN GIVEN TO (I) THE RELATION OF THE RATE TO THE SUBSTANTIAL INCREASE IN PRICES SINCE

DECEMBER; (II) THE DESIRABILITY OF USING A RATE ADJUSTMENT TO INCREASE GOVERNMENT REVENUES; AND (III) THE PROBABILITY OF A SUBSTANTIAL RISE IN THE MONEY SUPPLY IN THE LAST HALF OF THE YEAR, THE GROUP WAS CONTENT WITH THE THOUGHT THAT THE GKR, OR MORE SPECIFICALLY SOK CHHONG, WOULD BE THE BEST JUDGE OF WHAT CHANGES SHOULD BE MADE AND WHEN. THE MISSION SEEMED EQUALLY INDECISIVE ON THE QUESTION OF A NARROWING IN THE DISCOUNT ON THE PREFERENTIAL RATE AND/OR INCREASING THE DEPOSIT RATE TO 100 PERCENT ON THE CIP. SOK CHHONG, IN A LATER CONVERSATION, SAID THAT HE FELT THE CURRENT LOW LEVEL OF DEMAND ON THE NMC REFLECTS ANXIETY CREATED BY THE UNCERTAIN POLITICAL/MILITARY SITUATION AND THEREFORE WAS LESS CERTAIN THAN EARLIER AS TO WHAT OUGHT TO BE DONE ABOUT THE RATE.

3. WE BELIEVE THAT SOK CHHONG CAN BE CONVINCED THAT A SUBSTANTIAL ADJUSTMENT CAN AND OUGHT TO BE MADE IN THE RATE. HE IS VERY ALERT TO THE NEED TO INCREASE GOVERNMENT REVENUES AND SEEMS INCLINED TO BELIEVE THAT DEMAND IS INELASTIC IN RELATION TO THE RATE, WHICH WE THINK IS THE CASE. WE HAVE ALSO POINTED OUT TO BOTH THE IMF MISSION AND SOK CHHONG THAT GIVEN THE EARMARKING OF PROGRAM ASSISTANCE FOR SPECIFIC PURPOSES OTHER THAN THE REGULAR CIP, THE REMAINING AMOUNT MAY NOT BE SUFFICIENT TO ABSORB CIP DEMAND, EVEN WITH A NARROWING OF THE DIFFERENTIAL. PRESSURES COULD THEREFORE BUILD UP ON THE ESF. WHILE THE OUTCOME OF THE IMF'S CONSIDERATION OF THE EXCHANGE RATE ISSUE IS DISAPPOINTING, WE DO HAVE SOK CHHONG'S ASSURANCE THAT WILL NOT MOVE ON THE RATE WITHOUT CONSULTING US ON THE COMPANION QUESTION OF REDUCING THE DIFFERENTIAL.

4. THE MISSION HAS GIVEN SOME ATTENTION TO THE QUESTION OF CREDIT POLICY. IN FACT IT SEEMS TO CONCEIVE OF CREDIT MEASURES AS A MEANS FOR CONTROLLING DEMAND FOR FOREIGN EXCHANGE AND KEEPING THE EXCHANGE RATE "STABLE." IN THIS RESPECT THE MISSION IS FOLLOWING THE LEAD OF EVERS. WE BELIEVE THAT THE GROUP WILL RECOMMEND TO SOK CHHONG AN UPWARD ADJUSTMENT IN THE COMMERCIAL BANK LENDING RATE FROM 18 TO 25 PERCENT AS WELL AS A COMMENSURATE CHANGE IN THE INTEREST RATE PAID ON DEPOSITS. FURTHER, A HIGHER RESERVE REQUIREMENT WILL BE IMPOSED. PARALLEL TO THESE MEASURES, SOK CHHONG CONFIDENTIAL

PAGE 03 PHNOM 07588 260620Z

HAS ALREADY INQUIRED AS TO OUR WILLINGNESS TO HAVE P.L. 480 DEPOSITS TRANSFERRED FROM THE COMMERCIAL BANKS TO THE BNC. WE HAVE POINTED OUT THIS IS POSSIBLE BUT THEY WILL HAVE TO BE INTEREST BEARING ACCOUNTS.

5. WITH RESPECT TO FISCAL MEASURES, THE MISSION WILL APPARENTLY RECOMMEND THAT CERTAIN EXEMPTIONS FROM CUSTOMS DUTIES NOW IN EFFECT ON A NUMBER OF COMMODITIES BE ELIMINATED. AGAIN THIS REFLECTS EVERS' THINKING. WE OBSERVED THAT THE MATTER SHOULD BE EXAMINED VERY CAREFULLY SINCE WE HAVE THE IMPRESSION THAT A NUMBER OF THE EXEMPTIONS

ARE DESIGNED TO HELP LOCAL PRODUCTION. FOR WHATEVER THE REASON THE MISSION SEEMS TO HAVE CONFUSED THE DESIRABILITY OF

INCREASING DOMESTIC INDUSTRIAL PRODUCTION NOW WITH THE QUESTION OF LONG-TERM INDUSTRIAL DEVELOPMENT, WHICH IS NOT EVEN BEING CONSIDERED SERIOUSLY. THERE SEEMS TO HAVE BEEN THE THOUGHT THAT THE EXEMPTIONS WERE STIMULATING THE LATTER BUT WE FEAR THE GROUP DID NOT CONSIDER THE QUESTION OF THE USE OF THE EXEMPTIONS TO EXPAND DOMESTIC OUTPUT NOW.

6. THERE WILL PROBABLY ALSO BE RECOMMENDATIONS TO IMPROVE TAX COLLECTION AND PERHAPS TO EXTEND TAXES INTO NEW AREAS. ON THE EXPENDITURE SIDE, THERE WILL BE A CALL FOR TIGHTER CONTROL ALTHOUGH THE SPECIFICS ARE NOT CLEAR.

7. THE MISSION WILL, WE BELIEVE, MAKE A VERY STRONG RECOMMENDATION FOR A FORCED "WAR LOAN" AS A MEANS OF ABSORBING PURCHASING POWER AND INCREASING GOVERNMENT REVENUES.

8. BASED ON PRESENT KNOWLEDGE, WE FIND THE RESULTS OF THE MISSION'S WORK DISAPPOINTING ALTHOUGH A FINAL JUDGMENT MUST AWAIT DISSEMINATION AND REVIEW OF THEIR REPORT. IT WOULD HAVE BEEN USEFUL TO HAVE HAD CLEARCUT RECOMMENDATIONS ON THE EXCHANGE RATE SO THAT SOK CHHONG WOULD HAVE THE EXPLICIT BACKING OF THE IMF IF AND WHEN HE MOVES TO ADJUST THE RATE. NOT HAVING THE BENEFIT OF THE SPECIFIC RECOMMENDATIONS IN OTHER AREAS (EXCEPT FOR INTEREST RATES) IT IS HARD TO ASSESS THE OVERALL IMPACT OF ITS VISIT. UNFORTUNATELY WE HAVE THE IMPRESSION THE MISSION DID NOT LOOK AT THE ECONOMY AS A WHOLE, AS FOR EXAMPLE, ESTABLISHING A TARGET FOR LIMITING THE GROWTH OF THE MONEY SUPPLY OR THE RATE OF INFLATION. THE GROUP APPEARS TO HAVE EXAMINED THE VARIOUS
CONFIDENTIAL

PAGE 04 PHNOM 07588 260620Z

SECTORS INDIVIDUALLY WITHOUT RELATING ONE TO THE OTHER. FOR EXAMPLE, IT SEEMED COMFORTABLE WITH A PROJECTION OF AN INCREASE IN THE MONEY SUPPLY THIS YEAR COMPARABLE TO THAT OF 1972 BUT DID NOT SEEM TO CONSIDER IN A SYSTEMATIC WAY THE MEANS FOR DEALING WITH INFLATION RUNNING AT A RATE IN EXCESS OF 120 PERCENT ON AN ANNUAL BASIS, PRODUCED IN LARGE PART BY SUPPLY PROBLEMS.
SWANK

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 26 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PHNOM07588
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: PHNOM PENH
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730768/abqcegnw.tel
Line Count: 151
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 19 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19-Nov-2001 by shawdg>; APPROVED <14-Dec-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status:
Subject: IMF MISSION VISIT
TAGS: EFIN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005